MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BBF2124 – FINANCIAL MANAGEMENT II

(All sections / Groups)

17 MARCH 2018
9.00 a.m - 11.a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

INSTRUCTION: ANSWER ALL QUESTIONS.

QUESTION 1

Sonpower Co. is considering the purchase of a new machine. The existing machine was purchased 3 years ago at an installed cost of RM24,000; it was being depreciated under MACRS using a 5 year recovery period.

The existing machine is expected to have a usable life of at least 4 more years. The new machine costs RM38,000 and requires RM5,500 in installation costs; it will be depreciated using 5-year recovery period under MACRS.

The existing machine can currently be sold for RM28,000 without incurring any removal or cleanup costs. The firm is subject to a 20% tax rate. Calculate the initial investment associated with the proposed purchase of a new machine (please specify all calculations accordingly).

(Total: 15 marks)

QUESTION 2

i) Briefly discuss the "clientele effect" on the payment of dividends.

(5 marks)

ii) Discuss the agency benefits of leverage and how leverage can improves incentives for managers to run a firm more efficiently and effectively.

(5 marks)

iii) The stockholders' equity account of Alicia Merryland is as follows:

Common stock (340,000 shares at RM3.00 par)	RM 1,020,000
Paid-in capital in excess of par	900,000
Retained earnings	1,250,000
Total stockholders' equity	RM3,170,000

The earnings available for the common stockholders are RM200,000 and are included in the RM1,250,000 retained earnings.

Continued...

(a) Calculate the maximum dividend per share that the firm can pay if the legal capital includes all paid-in capital.

(3 marks)

(b) Calculate the maximum dividend per share that the firm can pay if the legal capital includes only the value of the common stock.

(4 marks)

(c) If Alicia Merryland has RM 35,000 in cash, what is the largest per-share dividend the firm can pay without borrowing, assuming legal capital includes all paid-in capital?

(3 marks)

(Total: 20 marks)

QUESTION 3

i) What is a holding company? Discuss the **FOUR (4)** advantages and **FOUR (4)** disadvantages of holding companies.

(20 marks)

ii) Differentiate between foreign bonds and Eurobonds. Why do Eurobonds appeal to investors?

(10 marks)

(Total: 30 marks)

QUESTION 4

i) Leasing arrangement takes several different forms. Discuss (1) operating lease, (2) financial lease, and (3) sale and leaseback.

(12 marks)

ii) Your start-up company has negotiated a contract to provide a database installation for a manufacturing company in Denmark. The firm has agreed to pay you $100,000 in three months' time when the installation will occur. However, it insists on paying you Danish Krone (DKK). You are worried that Danish Krone (DKK) could depreciate relative to the dollar. You wish to hedge this currency exposure with at-the-money US Dollar call options. Discuss the **SIX (6)** characteristics and evaluate the suitability of this option pertaining to your company's hedging objective. (12 marks)

Continued...

iii) Discuss the **FOUR (4)** essential characteristics of stock purchase warrants and how warrants are used in corporate financing.

(11 marks)

(Total: 35 marks)

End of Page